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**Apr. 10, 1996** **LETTER 1197**

**THE PICTURE:** The longer I operate in this business, the more I learn to depend on the *action of the market itself,* rather than on all those other "extraneous" studies. I'm not saying that cycle studies, short interest studies, put/call studies, contrary opinion studies, Elliott Wave studies, etc., aren't interesting and often very useful -- but the real story, the story that I trust the most, is told by the market itself. It's told by the daily, weekly and monthly ACTION of the market.

When I say *action of the market* I include momentum, stochastics, MACD, acceleration, percentage of stocks holding above their 200-day moving averages, highs and lows, moving averages, advance-decline ratio, and so forth. Anything to do with movement and what the market is actually doing (and, of course, that includes internal market action such as the advances and declines and daily high-lows).

OK, in view of all of the above, what's the market doing? The **D-J Industrial Average** marched to a new bull market high of **5689.74** on April 3 (but strange to say, on that same day not a single one of the 30 Dow Industrials hit a new high). The **D-J Transportation Average** (which will now have to confirm the Dow) recorded its bull market high of **2215.21** on March 22.

Meanwhile, the broad **S&P 500** struck its own bull market high of **661.45** almost two months ago on February 12. Thus, we have an unusual situation in which the much broader S&P has failed to confirm new highs in the Dow Averages. This is all the more unusual since both the **advance-decline ratio** and my **Primary Trend Index** have both been advancing to new highs. I would guess this hodge-podge will become clear in coming weeks.

Then there's the internal condition of the market. The list of new individual stock highs (52-week new highs) has recently dropped to the 100 to 160 zone. Thus, fewer and fewer stocks are joining the "new high parade." This is not necessarily bearish, but it is not bullish either.

In the last Letter I included what I felt was a very significant chart. It showed that the broad S&P 500 Stock Index has risen in 15 of the last 16 months (if the S&P is up in April, this will represent a fabulous string of 16 out of 17 months higher). This is an incredible string, and it does suggest that the market has gone to an extreme. It also suggests that after 15 rising months out of a total of 16, the market might have discounted the very best that can be seen ahead.

Money continues to pour into the stock market -- despite this the market is finding it increasingly difficult to advance. As this is written, the buyers (bulls) still have the upper hand, but the sellers (bears) are growing in strength. Despite the multi-billions of dollars entering the market each week, the broad S&P 500 has refused to rally strongly. In fact (and I don't think most people are aware of this), the S&P hit its high for the year back on **February 12 at 661.45.** Since then, despite higher highs in the Dow, the S&P has refused to confirm.

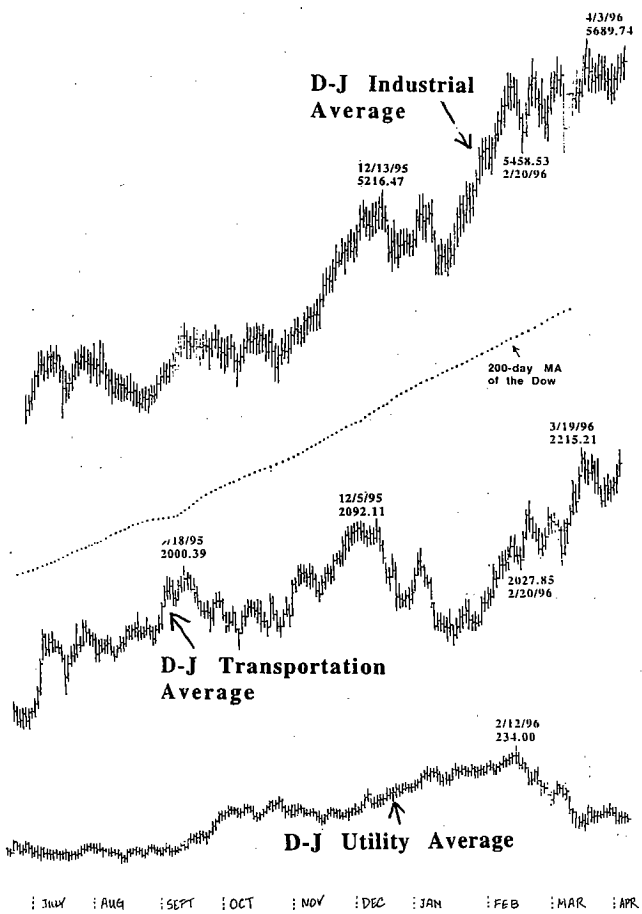
**Conclusion:** I see **trading ranges** for many items at this point. I think the bonds are fairly exhausted on the downside, but I'd be surprised if the bonds went to important new highs.

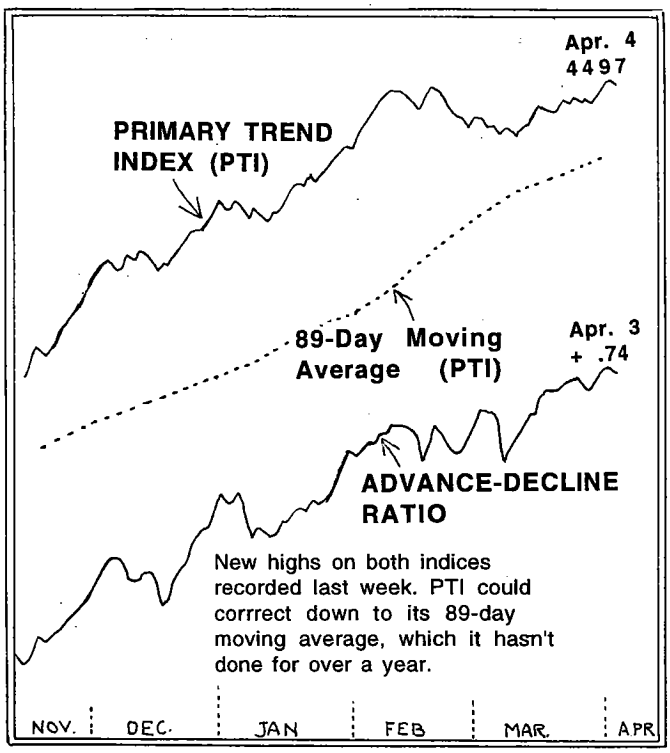
**Mar. 29 DJIA 5587.14; PTI 4482; A-D Ratio +0.54**
**Apr. 4 DJIA 5682.88; PTI 4493; A-D Ratio +0.70**
**Dow Yield: 2.11%; Dow Price/Earnings: 18.1**
**Dow 200-day MA: 5008; Dow 30-day MA: 5607**
**Dow Times Book Value: 4.35; PTI 89-day MA: 4433**
**Percentage of Undervalued Blue-chips: 4%**
**Gold 200-day MA: 391.64; Gold-PTI: 705**

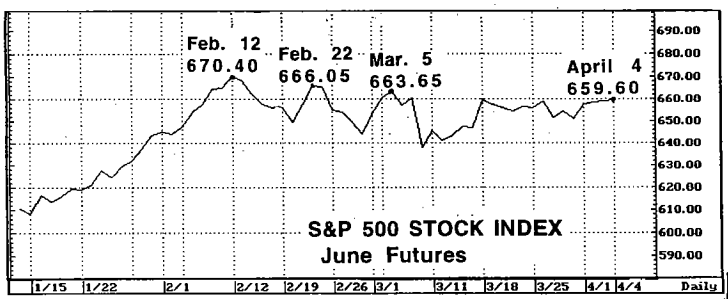
The stock market appears somewhat "tired" on the upside, and large interests are selling into it. But there seems to be an equally stubborn resistance to the downside, so again -- trading range.

The same story goes for gold and maybe the currencies. Almost all the items I follow (except for the high-flying grains) appear to have lapsed into well-defined trading ranges. It's frustrating for trend-followers and perma-bulls but ideal for option-writers.

**S&P 500 Futures** (refer to the chart at top of page 2). I've been watching one phenomenon that might only be picked up if you own a computer with a good chart-making program. I'm referring to the four DECLINING PEAKS in the S&P 500 (JUNE) futures. This is an unusual series of "declining tops," and I'm most interested to see whether the bull forces will be able to reverse this series. Actually, it's rather rare to see a series of four declining tops in the stock market -- or anywhere else, for that matter. What does it mean? Ordinarily, I'd say it means that sophisticated (or doubting) traders are selling rather intensely as each S&P rally nears a previous peak. That type of action suggests distribution, but let's not jump the gun --let's just allow the market to tell its own story.

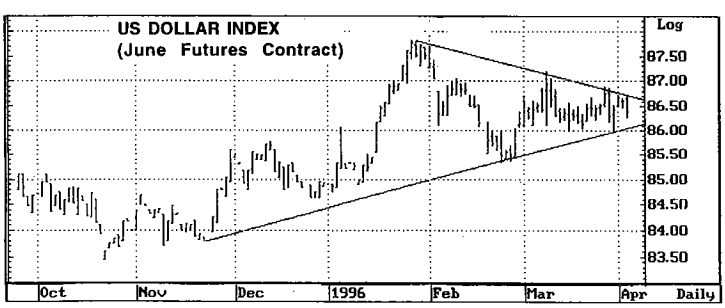





A second chart that I want to call attention to is the large triangle which has formed in the US dollar Index (June futures). Ordinarily a triangle implies *indecision.* But my personal opinion is that this triangle is going to break on the downside, which would mean breaking below 86 on the June contract. If that happens, it would mean a lower dollar, a higher yen, pressure on Japanese stocks (Japanese exports would be hurt by a higher yen) and for the US, I don't know, it all depends on HOW MUCH WEAKNESS would hit the US dollar.

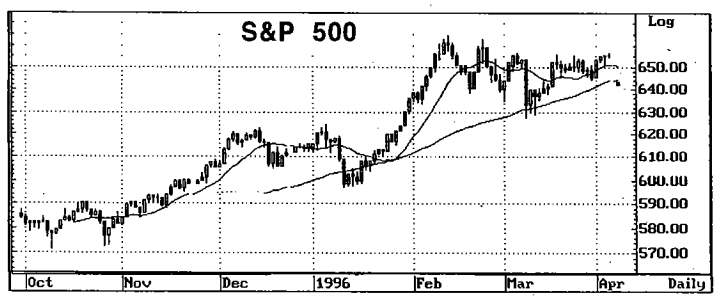
What could cause a weaker dollar? (1) The fact that the US trade balance is deteriorating badly. (2) The fact that the US federal deficit is again pushing (shamefully) above $200 billion. Actually, it's remarkable that the dollar has been doing as well as it has. One thing that has been helping the dollar is the increasing Chinese aggression and the fear that it has generated in Hong Kong and Taiwan. Probably a good deal of Asian money is now moving to the "safety" of the dollar. Finally, we know that the Bank of Japan has been supporting the yen.



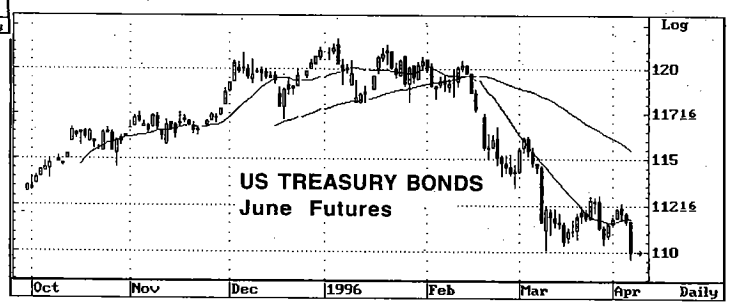

**MORE ON PRICE ACTION:** As long as I wrote so much about price action in the first section of this Letter, let's pick a few important areas and actually study the price action. I include two moving averages (MAs) on each chart, and the MAs are interesting because (1) they show where the current price is in relation to the recent average price, thus simplifying trend analysis, and (2) they generate automatic "buy" and "sell" signals, whenever the two MAs cross.

The first chart shows the daily **S&P Stock Index.** I use a combination of 13-day and 55-day exponential moving averages (I selected these two MAs basically because they work very well together). Note that back in late-1995 the 13-day MA came down to touch the 55-day MA, but the two MAs never actually crossed; thus the situation remained bullish. Again in January '96 the 13-day MA declined to almost touch the 55-day MA but again no crossing.

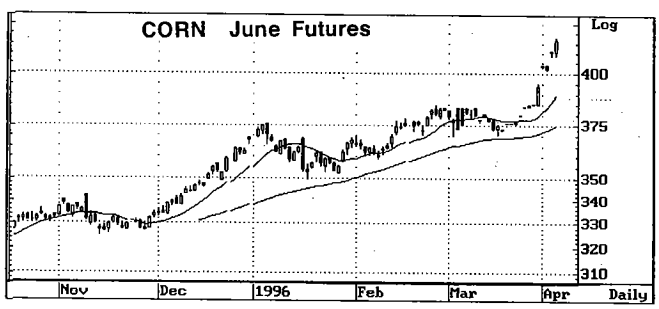
On April 8 the S&P plunged below both its 13- and 55-day MAs. The question -- will this weakness be sufficient to render a crossing, meaning will the 13- drop below the 55-day MA?



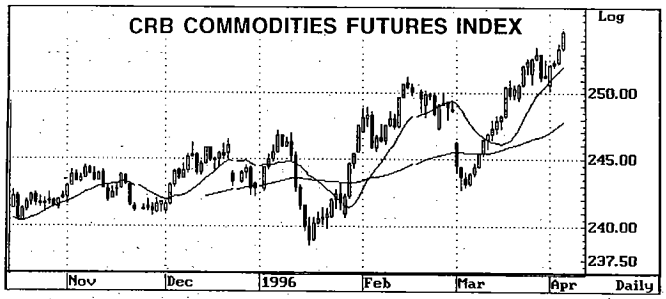

The second chart traces the Treasury Bonds (June futures contract). The bonds turned bearish in February as the two MAs crossed, and the contract smashed to a March 15 low of 110.19. A mild rally ensued, but on April 5 the Labor Dept. announced a pick up in employment and the bonds smashed again -- this time to sharp new lows. Thus, 1996, so far, has been a sheer horror for bond bulls.



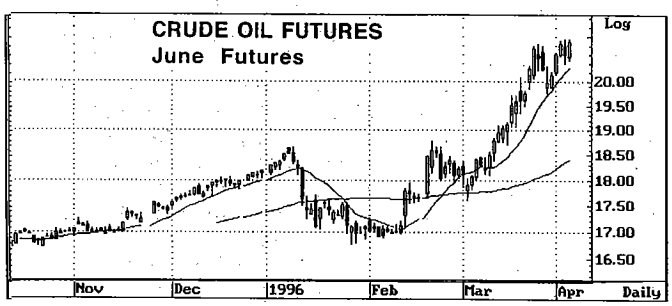

Cocoa at a four-month high, oil well over $20 a barrel, grains at highs with corn and wheat hitting record contract highs, tin and lead pushing sharply higher, steel companies about to announce price increases -- many raw materials rising, money supply expanding. Will all this set off inflation? Can't tell yet, but it wouldn't surprise me. Certainly with the grains exploding and inventories of many items at 20-year lows, we can expect to see food prices heading higher. Here's the chart of corn, which has been sky-rocketing.



This is the CRB Commodity Futures Index, which provides a good picture of the whole commodity complex. As you can see the situation remains bullish.




Last, I include this chart of that all-important item, Crude Oil futures -- and again the trend is clearly bullish. Will Iraq be allowed to sell its oil on the world market? Your guess is as good as mine.



**INVESTMENT POSITION:** I'm keeping the bull in the box. Why? Because I have nothing to PROVE that this is anything but a continuing bull market.

But in the last couple of Letters I advanced my opinion that the "gravy train is over." I'm still of that opinion. The S&P 500 Stock Index recorded its bull market high of **661.45** back on February 12. I'm fascinated to see whether the broad S&P can better that level. Because if it can't . . . well, let's just wait and see.

There's no real dividend return on common stocks now -- you buy 'em and hope they go higher. Of course, that's hardly the best rationale for buying common stocks. It's more like playing commodities.

So as far as I'm concerned my investment position is super-cautious, watching and waiting. And that figure, **661.45** on the S&P, keep it in mind. Post it on your bulletin board. If the bull is still in good shape that level will be surpassed. If it can't be bettered, watch out.

**NOTES & QU0TES: Inflation:** One of the disadvantages of having been born in 1924 (that's me) is that you remember what it was like when the dollar bought a lot -- and I mean a lot of almost anything. For instance, when I was a kid the *New York Times* (daily) cost three cents. So last week when I got the new price increase for the *Times* I gasped. The cost for delivery, seven days including Sunday is now $9.50 (at least it is for Californians). That comes out to $494 a year. Even by today's standards that's a lot of the big green for a newspaper, but then, I reflected, if you want to know what's going on in the world you've got to read the *NY Times*.

* *

The Vanguard Group has put out an interesting batch of statistics. They note that long-term returns on common stocks (going back 90 years) have averaged 10.2% a year. But there have been a number of huge shorter term "variations" such as the 43.3% loss in 1931 to the 53.9% gain in 1933. Pertaining to the situation today, they note that the rise that began in 1982 has been interrupted by only two short (in duration) breaks and that the broad market has not been subject to as much as a 10% loss since 1990, an unprecedented situation. **Russell Comment:** There is a rule (law, observation?) called "regression to the mean." It means that over any extended period of time any item will tend to return to its long-term average trend. In the 14 years since 1982 the Dow has risen roughly 4870 points. That represents a phenomenal rise of 628% over 14 years, and a compounded annual increase of **15.2%.** This massive rise will have to be corrected. Somewhere ahead there is fated to be a decline or a series of declines that will bring stocks back to their average appreciation trend of around **10.2%.** Don't blame it on me -- it's the law of regression to the mean.

**CLINTON TAX PROPOSALS draw increasingly sharp criticism.**

Critics are especially upset by a plan that effectively would raise capital-gains taxes for many investors and complicate calculations. "This provision goes in 100% the wrong direction," says House Ways and Means Chairman Archer. He wants to slash capital-gains taxes, not raise them. Senate Finance Chairman Roth calls this and other Clinton proposals "job-stifling tax hikes."

Clinton's plan would require use of the "average-cost method" for securities sales. If an investor owned 1,000 shares of a stock and sold 100, the investor would have to figure the average cost of all 1,000 shares, instead of simply picking those that lead to the lowest tax bill. Separately, the New York State Bar Association's tax section says it is "deeply concerned" about Clinton's use of immediate effective dates for certain tax proposals, thus freezing business activity in those areas.

**GIVE THE IRS** a 9% increase in its budget for the fiscal year ending Sept. 30, 1997, Clinton says. His budget calls for increasing the IRS budget to nearly $8 billion, up $647 million from the level authorized by Congress for fiscal 1996.

* *

**Taxes Are Where the Heart Is:** The US tax code purposely penalizes or should I say punishes wealth and success. If an American is taxed say 20% on an average income of say $10,000, then to be fair a man who makes 25 times as much should pay 25 times as much. But the US tax system says "Forget it, if you make 25 times as much as the $10,000 man you won't pay just 25 times as much, no, we'll just put you in a much higher bracket, because you really don't need all that 'extra' money." So the US tax system militates against success and wealth-building. It says that "if you make 'too much' money the government will relieve you of some of your gains, and give it to someone else who is less successful than you are." Furthermore, if you die the government will step in and grab as much of your estate (your life savings) as it can.

And President Clinton adheres to that philosophy -- in spades. Actually, Clinton wants to go even further. Here are two items that appeared in the March 27 *WSJ*. Would you vote for this man?

* *

My old friend, Harry Browne, is running for US President for the Libertarian Party. Harry's platform is as follows: (1) Reduce federal spending by one-half the first year (not cuts in growth, cuts in real spending). (2) Repeal the income tax the first year, replacing it with nothing, no flat tax, no sales tax. Government is to collect only tariffs and excise taxes, as stated in the Constitution. (3) End the Social Security tax the first year while selling unneeded federal assets and using the proceeds to buy private annuities for everyone dependent on SS. (4) End the war on drugs and reduce crime by releasing non-violent criminals from prison -- to provide space for murderers, rapists and child molesters who get out on plea bargains and early releases. **Russell Comment:** I don't know that I disagree with any of the above. They all sound revolutionary, but actually, if the Founding Fathers could see what's happening in America today they would call the current scene both revolutionary and in many instances a direct subverting of the Constitution. Today, Americans want LESS government and a situation where they can be left alone. To put it mildly, that isn't happening. Each year brings more taxes, more government rules and regulations, and more government interference in our lives (and I don't care which political party is in power, it never changes). The **four major certainties** -- inflation will continue at anywhere from 2% to 6%; the dollar will continue to buy less; the US national debt will continue to grow larger; the politicians will continue lying to us (and probably to themselves).

You know what bothers me most about our politicians? The hypocrisy and the evasions. For instance, Harry Browne notes that the 10th Amendment states, *"The powers not delegated to the United States by the Constitution, nor prohibited by it to the states are reserved to the states respectively, or to the people."* Browne notes that "politicians have ignored the 10th Amendment for years, but Dole now reads it into his speeches." Then Browne asks, "Since the Constitution authorizes very few functions for the federal government, does Dole intend to remove it completely from welfare, education, health care, housing, transportation, regulations, and crime control?" **Russell comment:** Who knows --nobody ever asks the real questions. And if they do, the politicians studiously avoid the honest answers.

* *

**Gas?** I've received clippings from a number of sources which tell of an amazing new fuel composed of 45% water plus 55% naphtha (the latter is produced in the early stages of petroleum refining, while skipping the later processes that produce various grades of diesel and gasoline). The new fuel would be able to power cars, trucks, trains, etc. The inventor, Rudolph Gunnerman works out of Reno, Nevada. He formed a company called A-55 Limited Partnership which joined giant Caterpillar's Engine Division in '94 to form a company called Advanced Fuels. The new fuel in tests shows a 60% drop in EPA-monitored emissions. If true, if it works, the new fuel could hit the gasoline business like a bombshell -- that's if it's true. Oil expert Charlie Maxwell of C. J. Lawrence writes, *"New technologies such as this are coming to the fore every day. It may be a winner. Or it may sink without a trace. But we can be sure that there will be another innovation to replace it. This is the most compelling reason among many for believing that the case for a long-range energy shortage is a difficult one to make."*

**New fuel-water mix could slash gas price in two**

Breakthrough also lowers pollution

By KEN MILLER
Gannett News Service

RENO — It seems too good to be true, but rigorous tests under way in California, Nevada and Illinois show a breakthrough fuel that is more than half tap water could power the nation's vehicles, trains and gas-powered aircraft by century's end.

* *

I continue to receive a lot of mail regarding chelation, the intravenous process which I've been undergoing for a few years and which ostensibly clears out the veins and arteries. Does it work? Well, I'm still showing up, aren't I! Seriously, I believe it does work. For those in the San Diego area who are interested or who want information, call the RST Medical Center at (619) 296-2952. For info . . . this letter just arrived here from a Wyoming subscriber: "We are retired teachers, ages 72 and 75. We have been 'practicing' alternative medicine-living for many years. However, both of my parents died of cardio-vascular incidents as did my brother and sister. I have been showing signs of congestive heart failure but medical doctors have been unable to pin down a cause. Eight months ago we started chelation with Dr. Harper in Salt Lake City; noticeable improvement. Several months ago my feet turned very red and swollen. Test found a trial fribulation and the valve fribulation = leaking blood back into the lungs, etc. and slight enlargement of the left side of the heart. Now the heart surgeon 'wants to' operate and replace the valve, even though he doesn't operate on border line cases . . . In three weeks I have been able to eliminate 80% of the swelling in my feet (I am also on a blood pressure drug for fluid and digitalis) and the irregular heart beat has improved to the point where it no longer skips beats. Chelation is not covered by Medicare so we are paying for it ourselves." **Russell Note:** Last week at a chelation session I talked to a 77-year-old man who was being chelated. He told me he had undergone a double by-pass 17 years ago. Six months after the by-pass both grafts clogged up again, he could hardly walk, and his cardiologist scheduled him for a second by-pass. The man met a friend who told him about chelation. This fellow immediately started chelation -- after an initial 20 sessions he was playing golf. The man has had a monthly treatment ever since. The plaque in his arteries dropped from 80% to 40% and he's never had that second operation. His doctor can't understand it.

* *

When there's no accountability, anything can happen, and it usually does. In a rare (rare, I don't think it's ever happened before) independent examination of the Federal Reserve's operations, a Congressional Report issued two weeks ago criticized the management of the Fed regarding its own finances. The report does not deal with Fed monetary operations, only with the way the Fed runs itself (this was not an audit, the Fed has NEVER been audited). The report noted that in six years 1988 to '94 the Fed's expenses rose 50% to $2 billion. The General Accounting Office also said that the Fed has $3.7 billion in a surplus account that "could be safely reduced and returned to the Treasury." This fund exists ostensibly "to cover system losses." Are they kidding, the Fed hasn't had a loss in 79 years! So what do they do with the money or the interest on the $3.7 billion? Who the hell knows. The reports also noted that the Fed does not ask for competitive bids on its purchases. The Fed had no comment on the report. **Russell Comment:** I think I want my son, Ryan, to grow up to be a Fed governor. And oh yes, Fed Chairman Greenspan denied any inefficiencies at the Fed.

* *

A very important new book entitled, "The Weight of the Yen" by R. Taggart Murphy has just been published. Murphy claims that the US's relationship with Japan resembles a dysfunctional marriage. The book notes that Japan now controls over half of the industrialized world's savings. For 15 years Japan has been the principal marginal financier of the US's trade and budget deficits. Japan is propping up the US dollar, which allows the US to live in a kind of economic fantasy. In other words, we don't have to do the things other people have to do. If they want to buy foreign goods, they have to figure how to pay for them. But we just continue to run deficits, and those deficits are paid for either by monetizing our debts (inflation) or by selling our debt to others. But the whole Japanese system is built on deliberate suppression of domestic demand. This worked when Japan accounted for 1% of the world economy, but now it's moved up to 17% to 20%. It's no longer possible for the rest of the world to absorb Japan's surpluses. This tends to push the yen higher against the dollar. And the higher yen in turn makes it more difficult for the Japanese to export. Nevertheless, there is tremendous resistance in Japan to changing the system. So what you have is a frantic effort to prop up the whole system -- which means Japan is continuing to buy mountains of dollars. Murphy estimates that private Japanese institutions have lost close to one trillion in dollar investments over the past 15 years. But they've had enough. Now the Bank of Japan and other Japanese government institutions have to buy the dollars. But even here there's a limit. And Murphy thinks that the Japanese are close to their limit. Writes Murphy, "The US Treasury and Japan's Ministry of Finance reached a deal that allows both sides to get through the next year or year-and-a-half. But I have grave doubts whether it can survive beyond that . . . We've already lost our sovereignty. Effectively, it's no longer possible for us to control our own destiny . . .The real decisions are being made inside the Federal Reserve and US Treasury and inside the Finance Ministry in Tokyo . . . It's like a dysfunctional marriage where both parties agree to subsidize each other's bad habits. In some ways, it's the most fascinating and troubling development in all of American history -- first because we've become so deeply entangled with a country so different from ours, and secondly because only a handful of people really understand what's going on." **Russell comment:** This sounds like an extreme view, but is it? One thing is clear -- the US is continuing to run big deficits. And the question -- how long will the Japanese continue to buy that never-ending ocean of dollars?

* *

California is the pivotal state in the coming election. To win the election, Clinton must win California (he's already made 23 trips to California over the last year). The current *Smithsonian* includes a fascinating article on US history and California. How did we get California (population in 1846 -- 20,000)? Here's the story: John C. Fremont, a famous writer/explorer, marched into California in the spring of 1846. He was soon fomenting revolution. "He had raised a band of roughnecks. Creating a theatrical distraction, they captured the 'microscopic hamlet' of Sonoma, and running a flag with a lumpily painted bear on it up the pole there, declared California an independent republic. Fremont got himself made acting governor. In fairly short order, California was under the

control of the United States of America. The fact was confirmed by the treaty of Guadalupe Hidalgo, under the terms of which America got not only California but the land that today is Arizona, New Mexico, Nevada and Utah as well as chunks of Colorado and Wyoming. Mexico got $15 million." **Russell comment:** And Warren Buffett thinks he picked up great values.

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The *Christian Science Monitor* (Mar. 25) contains an article entitled, "World's Cities Running Out of Room." As an example, the Nigerian capital of Lago had a population of 290,000 in 1950. By 2010 it is projected to have a population of 21 million. What's happened is that dozens of small and medium-sized cities around the world are suddenly exploding with populations that they cannot handle. An UN report states that by the year 2000, three billion people will be living in urban areas, three-quarters of them in developing nations. The report says that populations in urban areas in most developing nations will double over the next 10 to 15 years. Says the *Monitor*, "Such breakneck growth threatens to overwhelm urban governments that have neither the money nor the management and technical skills to keep pace . . . and have been overwhelmed by unexpected increases in populations." Following is a list of the world's mega-cities or giant urban areas: Tokyo -- 26.5 million; New York -- 16.3 mils.; Sao Paulo -- 16.1 mils.; Mexico City -- 15.5 mils.; Shanghai -- 14.7 mils.; Bombay -- 14.5 mils.; Los Angeles -- 12.2 mils.; Beijing -- 12.0 mils.; Calcutta -- 11.5 mils.; Seoul -- 11.5 mils.; Jakarta -- 11.0 mils.; Buenos Aires -- 10.9 mils. **Russell comment:** Maybe this is telling us to buy land way away from the cities -- Montana, the Dakotas, Nevada, Utah, Oregon, Maine, New Hampshire?

* *

**Latest Good News, Bad News:** The good news is that Adolph Hitler was found alive in Brazil and has been captured by the FBI. The bad news is that he's going to be tried in LA.

* *

Last week I watched a program on TV that dealt with a prison here in California. A selected group of about 15 prisoners had volunteered to take a course and learn how to be deep-sea divers. The 10-week course was grueling, tortuous, extremely demanding. At the end of the course there was a graduation, and most of the wives, children and girlfriends attended. The prison officials told the men how proud they were of them and you could see the tears in the eyes of the visitors. Each of the men stood up and thanked their instructors. To me, the single most inspiring sight is to see men (or women) who have hit the skids and then through sheer determination turned their lives around -- the ultimate triumph. On the other hand, to me the most depressing situation is to see a successful person hit the skids and ruin his or her life. It's been said that the criminal who does one good thing surpasses the good person who does one bad thing. Do you remember Christ and the two criminals who were crucified with him? When one of the criminals confirmed Christ as the savior, Christ sent that criminal to heaven. The Bible knew what it was talking about.

* *

We had some trouble with one of our computers last week. Our supplier told us they were sending over their best repairmen. The next day a kid came over who looked to be 17 years old. He immediately went to work, and within an hour the computer was fixed. I asked him how he learned about computers. "Oh, I don't know," he said, "I've been fooling with computers since I was five years old." Actually, it turned out the boy was 19 and going to UCSD. He said he's going to take an advanced degree in "artificial intelligence." **Russell comment:** Yep, it's a different world out there.

* *

**Crime:** California now spends more on its prisons than on higher education. It now takes 10% of the state of California's budget to operate its prisons. According to a Rand study, in six years prison costs will take a shocking 18% increase. A San Quentin guard now makes the same as a University of Calif. assistant professor ($45,000). In the last 15 years, 17 prisons have been built in California, and within four years, 15 more will be needed. The "three strikes and you're out" law is helping to keep the prisons full. A person with two felonies against him can commit a third (say steal a car) and get life in prison. Cops say this leads to more gun play and violence because when a man knows he faces life he tends to "go down fighting."

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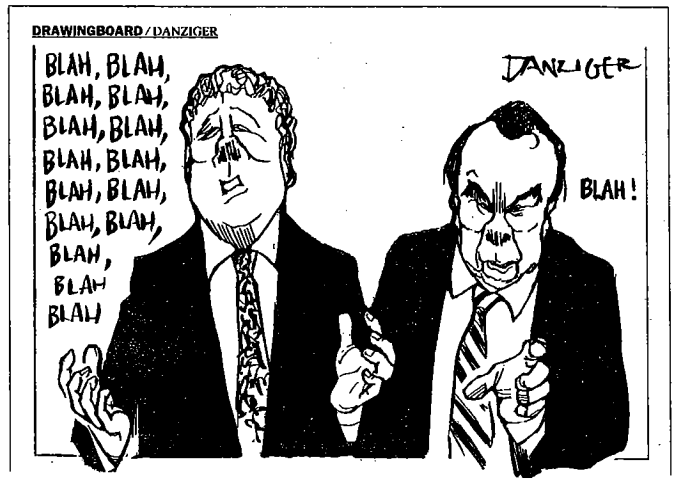
Clinton, will he ever stop talking? Dole, will he ever learn how to talk?

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The biggest problem in Europe is **unemployment.** In France and Germany unemployment is running at 12%. In Spain it is 20%. In all of Europe the rate of unemployment for those under 25 runs 20%. A principal cause of European unemployment is the rapid growth of labor costs. On top of that government tends to over-tax and over-regulate and provide fat old-age benefits. The minimum wage is also a problem; last summer the French government raised the minimum wage 4% to more than $7.25 an hour. **Russell comment:** Politics usually wins, and that tells me that it's only a matter of time before every central bank starts cranking up their money supply. Prognosis -- world inflation, and I wonder -- is that what we're seeing now in grains, some metals, oil, etc.?

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One of the great medical mysteries is this: France is the land of cream sauces, high-cholesterol pate, cheese-lovers and heavy smokers. So why are so few French overweight and why do the French enjoy a low incidence of heart attacks? One theory is that the French drink a lot of red wine, and that somehow fortifies their systems. Another theory is that the French indulge in sea water therapy. When Faye and I were in Paris we noted that the French don't tolerate preservatives in their food. Faye and I both ate a lot of that great French bread, and to our surprise we actually lost weight. The mystery goes on.

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My old buddy, film producer Aaron Russo ("The Rose," "Trading Places") is mad as hell and he's not going to take it anymore. Aaron has just finished a 110-minute videotape entitled, "Aaron Russo -- Mad as Hell." The tape is wild, very amusing and highly instructive. Aaron expresses his anger over the loss of liberties and the encroachment of government in the US. In interviews, audience feedback, monologues, shouting, dramatics and what-have-you Aaron does his thing as only "Angry Aaron" can do it. Personally, I loved the tape, and you can be the first one on your block to have one for -- 20 bucks. Write to Max & Sam TV, Box 27740, Las Vegas, NV 89126.

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Hooray, my 18-year-old son, Ryan, just got accepted to the school of his first choice, the University of California at Berkeley. Frankly, I was in shock. States Cal's Chinese-American chancellor, "I try to explain when, as occasionally happens, Asian-American or white friends complain to me that their child, a straight-A student, didn't get into Berkeley because we give spaces to others, I say that we use admission criteria other than test scores, grades and ethnicity, including a genius for computers, musical talent, geographical diversity. Besides, a straight-A average wouldn't guarantee admission to Berkeley even if there was no affirmative action. For a freshman class with 3,500 places, we get about 25,000 applicants. This year, 10,784 of them had a 4.0 high school record." **Russell comment:** Let me put it this way, to get into Berkeley isn't easy. Tuition with room and board runs around $13,500, and add $8,500 if you're out of state. But at

private universities such as Harvard, Yale, Stanford the price for tuition and board runs very close to $30,000. Despite that, the competition to get into top colleges is now intense, with around 10 to 15 applicants for each undergrad opening. If you live in a big city like NYC, it's very difficult to get your kid into a top lower school, and I understand some NYC schools run up to $15,000 a year for a lower school or high school.

**GOLD: SILVER:** The gold action is anything but clear. First, look at the chart of the gold futures. The chart is clearly bearish but with powerful support in the 390 area. How can this be, how can gold be bearish when employment is picking up, when the economy in the US appears to be picking up and when almost ALL raw material prices are rising?

One possible answer is provided by this headline. The central banks seem to dump a few tons of gold every time the metal pushes its head above 400. The last seller was Belgium, but I have to wonder if this isn't an organized effort to "hide the messenger." After all, almost every developed nation is now monetizing its debt and "printing" paper. So the last thing the central banks want is a "bull signal on gold." Gold climbing strong above 400 would tell the world that the banks were inflating. No, they don't want the news to come out.

Friday, March 29, 1996 **Investor's Business Daily**

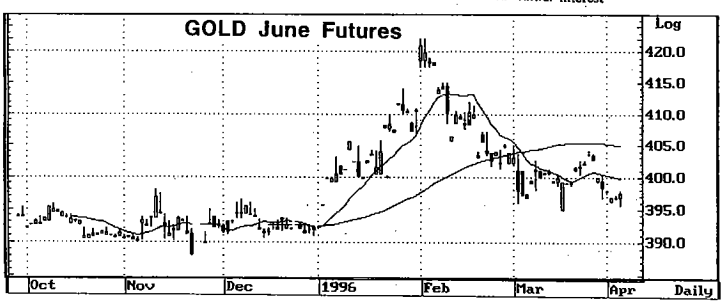
## Huge Sale Sends Gold Tumbling; Crude Oil Falls To Profit-Taking

By Donald H. Gold
*Investor's Business Daily*

Gold prices stumbled yesterday as recent buyers were dismayed at a

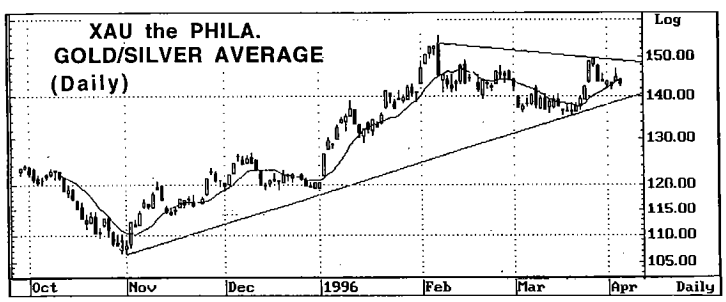
to revive Germany's ailing economy.

The move to hold rates steady caught many off-guard, including those who sold short the German mark. Lower interest



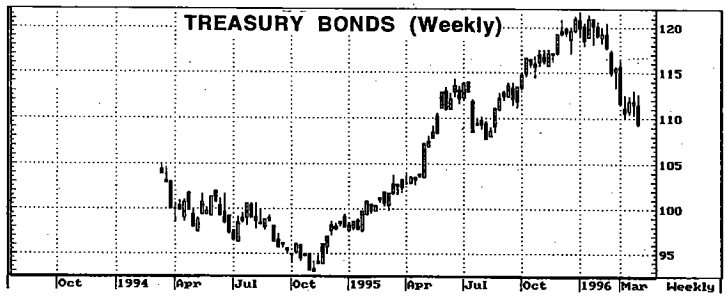

Now in opposition to the poor performance of gold, the metal, the gold stocks have been doing quite well. This chart of XAU, the Phila. Gold/Silver Aver. shows that XAU is holding above its rising trendline. It would take a decisive break below 140 to turn XAU negative, and that hasn't happened yet.

So what to think? My own feeling is that if you have gold or gold stocks, sit with them. If you don't have either -- I'd wait for the situation to clarify.




**LATE NOTES:** On Friday, April 5 the Labor Dept. scared the hell out of the bond market by announcing that employment had increased substantially more than expected. The bonds took the news like a death in the family. The long bond plunged to a new low for the year.

I'm including a longer-term (weekly) chart of the T-bonds so that you can get a better picture of what's been happening in the bond market. What you're seeing here is a MAJOR decline taking the June bond contract from its high of 121.23 (Jan. 4) down to the




April 8 low of 109.12. That's a drop of almost 11%, a huge percentage for bonds and one that wiped out a year-and-a-half of interest income. The drop also pushed the yield on the long bond to 6.8% -- which is around *three times the yield provided by common stocks.*

As far as the stock market and interest rates are concerned, the story is that stocks can live with any *given level* of rates, but it's the *trend of rates that impacts on stocks.* In other words, if the current 6.8% rate on the long bond is the "worst" the stock market has to deal with, then the market will stabilize. But if the stock market believes that the *trend* of rates is now up, ah, that's a different story. And it's a story that the stock market doesn't like at all.

Last night the S&P 500 futures were down 1200 points, the limit, so expectations were for a mini-smash at the Monday opening. But as this is written (morning of Monday, April 8) the Dow is down roughly 100 points, hardly a catastrophe. Remember, at the current level a Dow drop of 100 points represents a drop of only 1.8%.

A few things are evident at this juncture. One is that there will almost surely be no further interest rate cuts by the Fed during 1996. A second is that with an election coming up the Fed will do everything in its power to keep the market (and the economy) on an even keel.

Third, and I've been saying this for the last few Letters, I believe that the "gravy train" is essentially over for the hot-shot speculators and the in-and-out traders. Furthermore, I suspect that the easy times are over for the mutual funds holders. Along these lines, even if you're not a regular *Barron's* reader, I strongly suggest that you read the interview with the brilliant Paul Montgomery in the April 8 issue of *Barron's.*

Incidentally, I thought the fact that the "bad news" regarding higher employment came *after the Thursday close* was a big plus for the market. It allowed investors and traders to fully digest the news, and a possible panic was avoided. As a result, the market on Monday morning was much more orderly and actually much calmer than most observers expected. Remember, panics occur on those very rare occasions when the market is hit by unexpected news, and when too many investors try to squeeze through the market exit-door at the same time.

Whenever the stock market suffers a sharp drop such as the one that occurred on Monday, April 8, a good many subscribers want to know whether the bull market has ended. The answer (unfortunately) is that it is too early to tell. The PTI is still in a bullish mode, the moving averages have not crossed, and no Dow Theory bear signal has been issued. So the best thing to do is simply await the verdict of the market (of course, this writer is doing it with no stocks in his "portfolio").

I'll close this Letter with this thought -- watch the S&P 500 closing of **661.45.** That's a crucial number for the bull market. Since the S&P was the weaker of the two in the Dow/S&P equation, it would be a tremendous plus for the market if 661.45 is bettered. If it can't be bettered, the life of the bull market will (at least in my mind) be in question.

**NEXT MAILING: Apr. 24, 1996**